

## PARTNERS IN GROWTH: THE ROLE OF BUSINESS AND GOVERNMENT IN PROMOTING PROSPERITY

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### INTRODUCTION

I am honoured to have been asked to give the J. E. Cummins Memorial Oration. I hope that my remarks this evening on how government and business can promote our national prosperity will be as provocative as past orations by Sir Ian McLennan, Sir Arvi Parbo and Professor Adrienne Clarke and other distinguished speakers.

My theme tonight is 'Partners in Growth—the role of business and government in promoting prosperity'.

Before detailing what I see as the key elements of such a partnership, let me set the context.

### SETTING THE SCENE

We live in a world where the dynamics of economics and technology have largely escaped the constraints of national territory. It is a world where the passport to success is stamped with confidence, excellence and single-minded purpose.

Just a few months ago, the Australian cricket team showed great purpose and self-belief in beating the West Indies—a side that had gone for more than 20 years without defeat in a series at home.

Across the world, many Australians excel in the arts, in science, in films, in sport and in business. Outstanding as the achievements of these individuals and groups of individuals are, we need to go further.

- As a nation we need to become as purposeful and as confident as our world class compatriots in meeting the main challenge of our era—the intellectual, economic and technological competition between nations.
- In that contest, a nation can go from being a champion to an 'also ran' within a generation. Conversely, they can transform themselves just as swiftly from an 'also ran' into a champion.
- A nation's standing is largely determined by how it responds to the demands of change—and there are many examples of both upward and downward movement.

### GLOBAL LESSONS

People who grew up in the 1950s will recall the boast by the then leader of the Soviet Union, Nikita Khrushchev, 'we will bury you'. Despite the military tensions of those days, Khrushchev had in mind an economic and scientific triumph over the Western world. The Soviet economy was growing very strongly at that time, and their space program was then the pace setter.

Within a generation however, that seemingly formidable challenge evaporated. The command economy and the political system that underpinned it was completely unable to embrace change—it was not able to allow for the creativity and aspirations or even the basic needs of people, which is absolutely integral to the advancement of a nation.

Closer to home and in our time, a nation that has been Australia's economic partner for more than a generation is now undergoing a subtle yet profound national transformation.

Like many others who have visited Japan frequently over the years, my visits have confirmed my admiration for Japan's achievements. Even amidst that country's current difficulties, the performance of the Japanese economy and the exploits of their outstanding companies over past decades have caused economists to re-write the textbooks. However, despite past achievements, today there are powerful pressures for change both from within Japan and from countries such as the United States.

Thoughtful voices for change are to be found within Japan itself. With considerable justification, they claim that despite their country's status as an economic superpower, Japanese consumers, have not gained the full benefit of the country's standing. Prices of goods and services are higher—albeit declining—than would be the case if there was a concerted liberalisation of Japan's domestic economy.

Even in that nation, it is clear that nothing can be constant.

## RELEVANCE FOR AUSTRALIA

- I think the experience of Japan holds powerful lessons for Australia.

We cannot fall into the trap of thinking that the reforms we have instituted so far are enough to secure our future. A country must be able to constantly renew itself if it is to offer its people rising standards of living and larger opportunities.

The experiences of Japan and other seemingly strong economic powerhouses confirm the need for a policy framework that can deal with contemporary challenges, rather than being satisfied with past achievements.

- I believe that we need to take initiatives in three areas to help create a framework for national prosperity:

we need to get the broad economic settings right for sustainable growth;

we must revitalise our economic and intellectual infrastructure; and

firms and governments and society as a whole must instil in their people a new sense of initiative.

I think these three elements are key building blocks for prosperity in the contemporary world.

First, some comments on the role of governments.

## ROLE OF GOVERNMENT IN THE GLOBAL ECONOMY

In the 'borderless world' of rapid flows of technology, goods and services and investment, there are economic forces that are increasingly beyond the control of governments. Those that intervene to artificially distort trade and investment flows are not likely to succeed. But there is an important role for governments in positively influencing the international trade environment, and in encouraging domestically an efficient and socially responsible business sector that is able to compete strongly in the global marketplace.

Peter Drucker describes this changed role as meaning that governments can no longer control the 'weather', they can only control the 'climate'.<sup>1</sup>

Controlling the economic climate so as to promote sustainable growth is a key government responsibility.

It involves more savings and investment, exporting more, revitalising our infrastructure, and increasing our productivity and competitiveness in a host of ways. It also means making sure that the tax and regulatory regimes enhance rather than impede our performance in all these areas.

## GOVERNMENTS TO INVEST IN ECONOMIC AND INTELLECTUAL INFRASTRUCTURE

- As part of their actions to positively effect the 'climate' of the economy, governments must now give priority to those areas where they can do most to create the conditions for prosperity.

- Ensuring that we have the infrastructure and human resources to underpin the competitiveness of our front line firms is one such area.

I agree with Gary Sturges when he writes that in a global economy, the greatest leverage for nationally based governments is found in their investment in public infrastructure (economic infrastructure) and people (intellectual infrastructure).<sup>2</sup>

The challenge for a country as vast and thinly populated as Australia is not only to renew our basic infrastructure—roads, railways, ports, water, sewerage and drainage systems—but to keep up with city-states such as Singapore in laying down advanced infrastructure—optical fibre, satellite transponders and the like.<sup>3</sup>

We also need to go beyond this, and develop a more sophisticated view of the type of infrastructure we need. It's not just a question of roads, railways, and other physical assets which must be efficient; nor is it just a question of putting the newer types of infrastructure such as the super-highway into place. Getting the right systems, or the right software, to make them work is equally crucial.

Let me give you an example of what I mean. Perhaps we're all tired of hearing that our waterfront is inefficient, and maybe we're more anxious to hear some constructive ideas on how to fix it. I believe the solution is not just in labour practices, or the efficiency of cranes or other materials handling equipment, or the physical railway/road connections. Perhaps the solution lies in more effective systems linking the physical infrastructure and the labour practices.

So if an importer wants to bring some piece of machinery through the wharves, we can set up an electronic data system which eliminates much of the customs and sales tax paperwork, and gets it done in a timely fashion, and streamlines the unloading process. The information systems are part of the infrastructure and also need to be efficient.

- Providing infrastructure at world class levels demands that we look at how we currently allocate resources to the provision of infrastructure. Equally importantly, we need to look ahead 10–15 years to identify how the public and private sectors can work together to meet Australia's likely needs.

Despite its extraordinary importance, there has been a long term decline in government investment in infrastructure over the last 35 years from just under 8% of GDP to a touch over 4%. Over the same period, private sector capital investment has fluctuated with the business cycle, but is currently running at the same level as it was at the beginning of the period, approximately 16% of GDP.<sup>4</sup>

If we continue to wonder why the level of unemployment in Australia rises after each recession, we may find some of the answers in our continuing indifference to infrastructure. The stakes could not be higher, nor could the rewards if we are prepared to re-order our priorities.

In part, this means that spending must be redirected from recurrent expenditure to capital expenditure, but the issue is much larger than one of reordering priorities.

In the first instance, we must better allocate our investment dollars. In the road area for example, as EPAC has observed, it can be argued that too much money has been put into minor urban and rural roads, while needs for upgraded arterial roads and highways have been left unmet. The key to overcoming such problems is to adopt a national infrastructure strategy that focuses on getting good projects delivered efficiently.<sup>5</sup> The National Transport Planning Taskforce report completed last year might be the basis of such a strategy.<sup>6</sup>

#### INFRASTRUCTURE—GET THE PRIVATE SECTOR INVOLVED

We should also get the private sector more involved.

- The private sector lives by the capacity to take calculated risks, but the current tax and regulatory regime does reduce enthusiasm for greater involvement by companies such as BHP. A recent example of this was the Very Fast Train project, which was not viable without changes to the tax regime.
- It should not surprise us that the tax regime is an issue—it was established when governments provided the infrastructure.
- It is not beyond our capacity to remedy these problems and thus open the way for greater involvement by the private sector.
- Greater private sector involvement can bring many benefits: it can help to ensure that worthwhile infrastructure projects are undertaken, and can increase both the quality and quantity of infrastructure.<sup>7</sup> Whatever one's view of the ideology pursued by Mrs Thatcher, there is no denying the tremendous improvement in investment in infrastructure in the UK.

- Private sector involvement also enables Australian business to access world-competitive infrastructure, and can increase employment and growth.
- I would also argue that government investment is inherently less efficient than private infrastructure investment because it reflects a range of non-economic pressures in allocating resources. We have seen this in road funding allocations, over-expenditure on power generation especially in New South Wales, and mis-application of funding for domestic airport infrastructure. Private sector decisions are governed by the need to get a sufficient return on investment, which is a spur to maximising efficiency.

#### REVITALISING OUR INTELLECTUAL INFRASTRUCTURE

- We need to complement the revitalisation of our economic infrastructure with the renewal of our intellectual infrastructure.

Clearly knowledge is a valuable resource. As a result we are witnessing a struggle by companies around the world for access to knowledge—knowledge personified by a highly skilled and adaptable workforce. In turn, governments are trying to provide knowledge through a system of lifetime training and education in an effort to ensure that they can attract to their country the 'high end jobs'.

While great efforts have been made to improve the accessibility of education, particularly higher education for Australians, I think we have overlooked some vital 'quality' issues.

There is much argument about what constitutes quality, so the definition that I choose is one that was provided by the Senate Standing Committee on Employment, Education and Training several years ago: quality is—'fitness for purpose'.<sup>8</sup>

We live in an age when the pace of discovery of new knowledge is so great as to be overwhelming. The formal knowledge gained, even at the highest levels of learning, has an ever diminishing 'intellectual half-life'.

Technological change may well make people's jobs obsolete several times over before they retire, therefore it becomes critically important that our schools and universities impart the skills and attitudes that prepare employees for a lifetime of learning.

A great breadth of attitudes is also important.

Today's workplace increasingly requires engineers, accountants or marketers with language skills, an openness to other cultures and various

other attributes. For example, it is quite possible that a person who joins BHP will find themselves working quite early in their careers in Indonesia, or in Zimbabwe, or in Chile or in the United States, and then in another of these places.

Allied to the skills which will enable people to live and work confidently in other cultures, we need other generic qualities which universities have been very good at providing—things such as intellectual curiosity, problem solving, independent thought, effective communication and the ability to work in a team.

It is the combination of these generic skills with a practical vocational edge that we need to develop within young Australians if they are to get the 'high end' jobs in the global workplace of today.

The third area I want to discuss tonight is developing initiative.

#### INITIATIVES BY THE PRIVATE SECTOR

- If we expect governments to face up to the realities of our time, so must others—none more so than business.
- While governments must create the environment for prosperity, it is up to the private sector to create the new jobs and the new industries that will enable us to become leaders in the global economy.

#### A CULTURE OF CONTINUOUS INITIATIVE

- To do that well, I believe we need a culture of continuous initiative in Australia. Rather than casting around for ways in which we can catch up to the dynamic economies of the world, we should be the standard bearers—as we were earlier in our history, when the world looked to us for advances in agricultural and mining technology as well as some social and political concepts.
- I said at the beginning of my speech that achieving prosperity and rising standards of living requires a partnership between government and business. I am not thinking of a formal or legalistic partnership, but one which involves both groups in continuous effort to achieve similar goals; one which is based on shared assumptions about the way we can build on our strengths to improve national living standards.
- Above all, the partnership must be based on a shared vision of Australia's potential, and a recognition that innovation is the key to unlock and add to that potential.
- The Australian Manufacturing Council has put considerable effort into understanding how

innovation works in the broad sense, and three critically important areas have emerged:

there is the need for world class knowledge infrastructure, involving education, common business practice and an understanding of how the economy and particular industries function;

the second is the need to forge stronger linkages between industry and its Research and Development providers, its leading edge customers and suppliers, and other firms and networks;

the third element is the need to significantly improve the internal capabilities of firms.

- All of these elements are connected; improvement in one area alone is insufficient if we want to become a nation of self-starters.

#### THE DRIVERS OF INNOVATION

- The need for developing a culture of continuous initiative is urgent—a fact which becomes apparent if we look at many of the major issues confronting us. Rather than feeling despondent about the difficulties, we should turn these challenges into the drivers of innovation.

Let me illustrate the point with a few examples.

Given our current account difficulties, increased exports are now crucial to our national well-being.

- Our high value manufacturers and service providers have shown it is possible to crack the toughest overseas markets. We have much more to do in these areas, but why not put our export focus at the centre of all our endeavours? In the case of manufacturers, this would mean investing in or developing the most advanced technologies. For governments, it would mean applying the 'export test' to every policy and every action. If an action obstructed our capacity to export, then the behaviour would have to change.

Our proximity to Asia is a major advantage.

- But timing is important—if we don't build on this advantage, others will establish a presence there and we will again follow in their wake. So we could apply 'strengthening our presence in Asia' as a test at a firm, a government and a community level. Actions which worked against that major national imperative would need to be turned around.

The information superhighway is another example.

- The relevant technologies and concepts shaping this development are changing quickly. Right now, we have an opportunity to get in at an

early stage; that means firms need to explore the business possibilities, and governments need to ensure a competitive communications technology climate. They also need to ask the key question: will these actions that are being proposed work for or against this Imperative? They then need to respond accordingly.

#### THE ROLE OF BUSINESS IN ACHIEVING A CULTURE OF INITIATIVE

I would like to elaborate on the key role of companies in developing this culture of initiative in their daily operations.

- In essence, the leadership task is to develop and reinforce the culture which drives the company. It means unlocking the tremendous productive and innovative capacity in the workforce. It means finding the motivational triggers for world class performance. For big firms such as BHP, it means rediscovering the fire and hunger for success which saw them transformed from small to large companies.
- Above all, it comes down to commitment and drive and a determination to be the best.
- Already there are many Australian companies and business people showing us the way. Studies that have been carried out by the Australian Manufacturing Council and the Australian Best Practice Demonstration Program hold valuable lessons for the private sector in general.

In simple terms, Best Practice is a tool which helps to instil a culture of initiative aimed at continuous improvement of a business.

- Under the banner of Best Practice, there is a cultural revolution underway in many Australian companies, but many more of us need to embrace that process of change.
- First and foremost—these leading companies, incidentally many of which are of a modest size, have a 'culture of leadership'.
- From the CEO to the individual employee at the sharp end of economic competition, these businesses understand that a strong business must constantly grow both revenues and profits: increasing revenue through a constant stream of new ideas and product innovations and increasing profits through unceasing improvements in productivity. Neither innovation nor productivity alone is enough. A winning company has to master both.<sup>9</sup>
- In traditional firms, ideas are imposed on employees from above. This has the corrosive effect of turning concepts into rules, stripping them of their vitality. Employees change their behaviour, but not their minds. In a leadership

culture, behaviour changes, because minds have embraced change.

- To gain competitive advantage in the future, organisations will need to harness and unleash the creativity and competitive spirit that resides within their people. In practical terms, that means embracing top technologies, providing training and career development, and strengthening the networks which are vital to innovation.

#### RELATIONSHIPS AND THE 'VALUE DELIVERY CHAIN'

Networks and relationships are a critical source of competitive advantage today.

- Business in the 1990s is far removed from the old notion of 'make a product and sell it'.
- In the truest sense of the expression, every company is now part of a 'value delivery chain' with the greatest rewards going to those companies that provide the highest value to their customers. Within the value delivery chain, every company has suppliers and customers. We need to work relentlessly with our customers and suppliers to see how we can provide a better product and service.
- The same active sense of partnership needs to be developed with all our research and development partners, with unions and with governments.

A culture of innovation and initiative is equally relevant to government organisations. They too need to look at continually improving their operations and harnessing the drive of their people. At a general level, they need to ensure they have the infrastructure and systems and policies in place to achieve the best outcomes for Australia.

#### CONCLUSION

Ladies and gentlemen, I am an optimist by conviction. I believe that the capacity of people for creativity and change is endless. I am also an optimist by experience. My time in BHP has convinced me that cultural transformation and unlocking potential is possible.

Rather than being anxious about living within a globalised economy, through our ingenuity and reason, Australians can revitalise our country so that our future can be one filled with opportunity and prosperity.

The global convergence of technology, information and markets means the central metaphor of our era is 'connectedness'; those companies—and countries—that turn their linkages into competitive advantages will prosper.

Government and the private sector must be partners in this endeavour if our people are to live with a sense of confidence and poise.

Two centuries ago Adam Smith gave a prescription for national development. Even as we approach the 21st century, the essence of his observation holds true. If I may paraphrase him,

'Little else is required to carry a state to the highest level of opulence ... but peace, easy taxes, investment in a peoples' intellectual

development, world class infrastructure ... all the rest being brought about by the natural order of things, foremost being the vitality and drive of the private sector to create superior goods and services.'

I think the assumption behind that prescription is one of partnership. If government and business can work in harmony, growth and the fruits of growth will be ours for the picking.

Thank you.

<sup>1</sup> Peter F. Drucker, 'Managing for the Future', Butterworth/Heinemann Ltd, UK, 1992, p. 7.

<sup>2</sup> Gary Sturgess, 'Can governments add value in a borderless world?', Sixth National Business Summit, 8-9 March 1995, p. 4.

<sup>3</sup> Ibid, p. 13.

<sup>4</sup> Max Walsh, 'Real picture is in Statement No. 2' in *The Sydney Morning Herald*, 11 May 1995, p. 33.

<sup>5</sup> EPAC, Private Infrastructure Task Force—Interim Report, May 1995, p. 1.

<sup>6</sup> Building for the job: A Strategy for Australia's Trans-

port Network, National Transport Planning Taskforce, December 1994.

<sup>7</sup> 'Impediments to private sector infrastructure involvement', submission by the Business Council of Australia to the Economic Planning Advisory Commission, February 1995, p. 1.

<sup>8</sup> The Senate Standing Committee on Employment, Education and Training, 'Priorities for reform in higher education', June 1990, p. 3.

<sup>9</sup> Noel M. Tichy and Stratford Sherman, 'Control your destiny or someone else will', published Harper Business 1994, p. 20.

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#### SUMMARY

John Prescott is Managing Director and Chief Executive Officer of BHP. He commenced with BHP 37 years ago as an industrial relations trainee and progressed through various industrial relations positions in the Company's Steel and Transport businesses in Newcastle, Sydney and Whyalla before being appointed to line management as Assistant Manager Fleet Operations in 1974. He later became General Manager Transport of BHP in 1982, Chief Executive Officer of BHP Steel in 1987, a Director of BHP in 1988 and was appointed to his present position in May 1991.

He has served on various industry and government bodies and has been closely involved in the reform and reconstruction of the maritime and manufacturing industries in Australia. He is Chairman of the Australian Manufacturing Council, a Board Member of the Business Council of Australia, Patron of the Australian Quality Council, Member of the International Advisory Board of Booz, Allen & Hamilton Inc., Member of the International Council of J. P. Morgan; Member Asia Pacific Advisory Committee of The New York Stock Exchange; and Member Board of The Walter & Eliza Hall Institute of Medical Research.

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